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INVESTORS WARNED ABOUT 'CALLABLE' CERTIFICATES OF DEPOSIT
Elderly Investors Being Pressured Into Buying Long-Term CDs

Olympia, February 7, 2001 – With stock market volatility causing investors to look for safer places to put their money, some stockbrokers are pushing elderly investors to buy higher-yield "callable" certificates of deposit with 10- to 20-year maturities, state securities regulators warned today.

"Not all CDs are created equal, so investors need to ask questions and understand exactly what they're buying," cautioned Deborah Bortner, Washington's director of securities. "Callable CDs often yield more than traditional bank-issued CDs, but they come with strings attached," she said. "If someone promises you an above-market return, be skeptical and ask lots of questions," she added.

Federally-insured certificates of deposit, sold either by banks or brokers, have long served as a safe harbor for investors worried about stock market volatility. Rising interest rates and the falling stock market have made CDs more attractive, especially to older investors. But what many investors don't realize – and some stockbrokers apparently aren't adequately disclosing – is that with "callable" CDs only the issuer, and not the investor, can "call" or redeem the CD. Investors who want their money before a "callable" CD matures risk a substantial loss, regulators warn.

In Vancouver, Washington, an elderly couple went to their bank to "roll-over" an existing CD. The wife has Parkinson's Disease and the husband is diabetic and in the early stages of Alzheimer's. The couple told the salesperson they wanted rapid access to their funds because they expected to enter an assisted living complex. The salesperson persuaded them to purchase a 10-year callable CD worth $90,000. They understood the salesperson to tell them that they could "call the CD" when they needed cash. When they went into assisted living, they tried to call the CD and found that only the bank could call the CD. They complained to the Department of Financial Institutions (DFI) Securities Division. After an investigation and negotiation with the bank, the couple got all their money back.

Similar complaints, many involving large brokerage firms as well as independent CD brokers, have been filed with state securities regulators across the country. Also receiving complaints are the Securities and Exchange Commission and the National Association of Securities Dealers.

In Bellevue, an elderly couple that had always invested in one-year bank CDs took the advice of their broker when the CD expired. He said he could get them 7 percent - better than they could get at a

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bank. They invested their life savings, thinking they were investing in something similar to what they had before. Months later, they found that they'd purchased a 20-year CD and their investment wasn't worth what they had thought. They contacted DFI's Securities Division and the matter was resolved, but not before the couple experienced considerable anxiety and loss of sleep.

In North Dakota, an 85-year-old man was persuaded to buy a $100,000 CD with a 15-year maturity. After state regulators contacted the broker, the money was returned. In Texas, an 85-year-old retired truck driver spent $100,000 on a 20-year CD. When he tried to redeem the CD after one year, the broker gave him the option to sell – at a $30,000 loss. The broker – who still advertises the CDs in the paper – has yet to follow through on a promise to refund the original investment. In Delaware, a 67-year-old steelworker told securities regulators he was sold several 20-year CDs worth a total of $63,000.

Callable CDs are being marketed via newspaper ads, telephone solicitations and direct mail, say regulators. In some print ads, regulators note, the CD's interest rate is trumpeted in large print while the instrument's maturity date is buried in small type. Regulators are concerned that some elderly investors are vulnerable to high-pressure sales tactics and may be confused by technical jargon.

Before purchasing any CD, state regulators urge investors to learn its maturity date, where the money will be deposited, the penalties for early withdrawal or costs associated with selling before maturity, and whether the interest rate is fixed or variable. State and federal securities regulators can provide answers to questions about stockbrokers, brokerage firms or specific securities products such as "callable" CDs. For more information, visit the FDIC website http://www.fdic.gov/consumers/consumer/news/cnfall00/BankCD.html. For information on investing, call the Department of Financial Institutions Securities Division, at 800-372-8303 (toll-free for Washington residents). On the Internet, go to http://www.wa.gov/dfi/securities.

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